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## **YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED**

**裕元工業(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00551)**

### **UNAUDITED CONSOLIDATED RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2018**

#### **Summary**

The Directors of Yue Yuen Industrial (Holdings) Limited announce the unaudited consolidated results of the Group for the three months ended March 31, 2018. This announcement is made as part of the Company's current practice to publish its financial results quarterly and pursuant to paragraph 13.09(2) of the Listing Rules and Part XIVA of the SFO.

The unaudited consolidated profit attributable to owners of the Company for the three months ended March 31, 2018 was approximately US\$95.4 million.

The directors (the "Directors") of Yue Yuen Industrial (Holdings) Limited ("the Company") are making this announcement of the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended March 31, 2018 in line with its current practice to publish the Group's financial results quarterly and pursuant to paragraph 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

\* *For identification purpose only*

## Consolidated Income Statement

For the three months ended March 31, 2018

	For the three months ended March 31,	
	2018	2017
	(Unaudited)	(Unaudited)
	US\$'000	US\$'000
Revenue	2,287,391	2,100,810
Cost of sales	<u>(1,710,035)</u>	<u>(1,574,793)</u>
Gross profit	577,356	526,017
Other income	38,779	27,967
Selling and distribution expenses	(288,375)	(213,712)
Administrative expenses	(143,913)	(151,023)
Other expenses	(58,321)	(59,758)
Finance costs	(16,346)	(7,709)
Share of results of associates	3,510	8,432
Share of results of joint ventures	11,790	5,810
Other gains and losses	<u>4,660</u>	<u>19,197</u>
Profit before taxation	129,140	155,221
Income tax expense	<u>(23,853)</u>	<u>(22,764)</u>
Profit for the period	<u><u>105,287</u></u>	<u><u>132,457</u></u>
Attributable to:		
Owners of the Company	95,441	124,491
Non-controlling interests	<u>9,846</u>	<u>7,966</u>
	<u><u>105,287</u></u>	<u><u>132,457</u></u>

**Consolidated Statement of Comprehensive Income**  
*For the three months ended March 31, 2018*

	<b>For the three months ended March 31,</b>	
	<b>2018</b>	2017
	<b>(Unaudited)</b>	(Unaudited)
	<b>US\$'000</b>	US\$'000
Profit for the period	<u><b>105,287</b></u>	<u>132,457</u>
<b>Other comprehensive (expense) income</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Change in fair value of equity investments at fair value through other comprehensive income	<b>(11,988)</b>	–
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties, net of tax	<u><b>5,878</b></u>	<u>–</u>
	<u><b>(6,110)</b></u>	<u>–</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on the translation of foreign operations	<b>43,517</b>	9,548
Fair value gain on available-for-sale investments	–	5,089
Share of other comprehensive income of associates and joint ventures	<b>3,587</b>	8,866
Reserve released upon disposal of an associate	<u><b>(902)</b></u>	<u>–</u>
	<u><b>46,202</b></u>	<u>23,503</u>
Other comprehensive income for the period	<u><b>40,092</b></u>	<u>23,503</u>
Total comprehensive income for the period	<u><u><b>145,379</b></u></u>	<u><u>155,960</u></u>
Total comprehensive income attributable to:		
Owners of the Company	<b>119,036</b>	144,327
Non-controlling interests	<u><b>26,343</b></u>	<u>11,633</u>
	<u><u><b>145,379</b></u></u>	<u><u>155,960</u></u>

The Group's unaudited consolidated results for the three months ended March 31, 2018 have been prepared in accordance with the accounting policies adopted by the Group as disclosed in the last annual report for the year ended December 31, 2017, except for the adoption of new and amended standards as set out below.

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting HKFRS 9 "*Financial Instruments*" ("HKFRS 9") and HKFRS 15 "*Revenue from Contracts with Customers*" ("HKFRS 15"). The adoption of HKFRS 9 and HKFRS 15 had no material impact on the Group's financial statements and no retrospective adjustments had to be made. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

## **Management Discussion and Analysis**

### **Results**

The Group recorded revenue of US\$2,287.4 million in the three months ended March 31, 2018, representing an increase of 8.9% compared to revenue of US\$2,100.8 million recorded in the same period in 2017.

Profit attributable to owners of the Company decreased by 23.3% to US\$95.4 million, compared to US\$124.5 million recorded in the same period in 2017. It was mainly due to operating deleverage from the sales decline within the manufacturing business, a reduction of the non-recurring gain for the period, as well as higher finance costs during the period.

During the period, a non-recurring profit totaling US\$4.7 million was recognized, which included a gain of US\$0.2 million due to fair value changes on derivative financial instruments and a gain of US\$4.3 million from the disposal of an associate. Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company amounted to US\$90.8 million, representing a decrease of 13.8% compared to the same period in 2017.

### **Revenue**

Total revenue attributable to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) during the period decreased by 6.3% to US\$1,206.4 million, whereas the volume of shoes produced and average selling price per pair decreased by 5.1% to 76.6 million pairs and by 1.3% to US\$15.75 per pair, respectively, as compared with the same period of last year. As a result, the total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) and the apparel wholesale business during the period was US\$1,428.9 million, representing an increase of 0.3%.

## Total Revenue by Product Category

	For the 3 months ended March 31,				
	2018		2017		% change
	US\$ millions	%	US\$ millions	%	
Athletic Shoes	938.0	41.0	996.1	47.4	(5.8)
Casual/Outdoor Shoes	241.4	10.5	261.4	12.5	(7.7)
Sports Sandals	27.0	1.2	29.8	1.4	(9.4)
Soles, Components & Others	123.0	5.4	137.1	6.5	(10.3)
Apparel Wholesale	99.5	4.4	N/A	N/A	N/A
Retail Sales – shoes, apparel & leasing	858.5	37.5	676.4	32.2	26.9
<b>Total Revenue</b>	<b>2,287.4</b>	<b>100.0</b>	<b>2,100.8</b>	<b>100.0</b>	<b>8.9</b>

During the period, the revenue attributable to Pou Sheng, the Group's retail subsidiary, increased by 26.9% to US\$858.5 million, compared to US\$676.4 million in the same period of last year. In RMB terms (Pou Sheng's reporting currency), revenue during the first three months in 2018 increased by 17.7% to RMB5,502.9 million, compared to RMB4,674.1 million in the same period of last year.

### Gross Profit

During the period, the Group's gross profit increased by 9.8% to US\$577.4 million. Due to unfavorable fluctuations in customer orders, together with an unfavorable product mix that resulted in operating deleverage, the gross profit of the manufacturing business decreased by 17.1% to US\$248.0 million during the period. As such, the gross profit margin for the manufacturing business during the period fell by 2.3 percentage points to 18.7%.

The gross profit margin for the Group excluding Pou Sheng (i.e. the manufacturing business and the apparel wholesale business) during the period was 20.1%.

### Selling & distribution expenses and administrative expenses

The Group's total selling and distribution expenses during the period amounted to US\$288.4 million (2017: US\$213.7 million), equivalent to approximately 12.6% (2017: 10.2%) of revenue. The increase in selling and distribution expenses was mostly attributable to the Group's retail business, which has been exploring and investing in a variety of initiatives to adapt to the shifting market dynamics. In RMB term, Pou Sheng's selling and distribution expenses increased by 18.5%, compared to the same period of last year.

Administrative expenses for the period were US\$143.9 million (2017: US\$151.0 million) and remained stable, equivalent to approximately 6.3% (2017: 7.2%) of revenue.

### **Fair value changes on derivative financial instruments**

During the period, the Group recorded a gain of US\$0.2 million due to fair value changes on derivative financial instruments, compared to a gain of US\$9.4 million during the same period of last year.

### **Share of results from Associates and Joint Ventures (“Share of A& JV”)**

During the period, the share of results from associates and joint ventures was a combined profit of US\$15.3 million, compared to a combined profit of US\$14.2 million recorded in the same period of last year.

By Order of the Board  
**Yue Yuen Industrial (Holdings) Limited**  
**Lu Chin Chu**  
*Chairman*

Hong Kong, May 14, 2018

*As at the date of this announcement, the Directors of the Company are:*

*Executive Directors:*

*Mr. Lu Chin Chu (Chairman), Ms. Tsai Pei Chun, Patty (Managing Director), Mr. Chan Lu Min, Mr. Lin Cheng-Tien, Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho, Mr. Liu George Hong-Chih and Mr. Hu Dien Chien.*

*Independent Non-executive Directors:*

*Mr. Leung Yee Sik, Mr. Huang Ming Fu, Mr. Chu Li-Sheng, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh).*

*Website: [www.yueyuen.com](http://www.yueyuen.com)*